DIRECT TESTIMONY OF TIMOTHY DOMINAK

I. Introduction

Q. Please state your name and business address.

A. Timothy Dominak, 2000 West Ameritech Center Drive, Hoffman Estates, IL 60196.

Q. By whom are you employed, and in what capacity?

A. I am the Director– Regulatory Accounting (Ameritech). I am responsible for ensuring that the financial operations of the Ameritech Operating Companies (Ameritech Illinois Telephone Company (Also d/b/a/ Ameritech Illinois), Indiana Bell Telephone Company, Inc., Michigan Bell Telephone Company, The Ohio Bell Telephone Company, and Wisconsin Bell, Inc.) are maintained in accordance with the Federal Communications Commission Part 32 Uniform System of Accounts as well as the Commission's rules Code Part 710. Additionally, I provide accounting support to the five Ameritech Operating Companies for state regulatory issues.

R. What is your education and business experience?

A. I graduated from Cleveland State University in 1973 with a Bachelor of Science degree in accounting. I am a Certified Public Accountant and a member of the American Institute of Certified Public Accountants and the Illinois CPA Society.
I joined the Ohio Bell Telephone Company in 1974 as an Internal Auditor where I had responsibility for a variety of financial audits. In 1977 I transferred to the Independent Company Settlements group where I was responsible for auditing and authorizing independent telephone company cost settlements in the Ohio territory. In March of 1979, I was promoted to Manager – Corporate Accounting, with the responsibility of developing mechanized general ledgers including associated methods and procedures. During the next seven years I had responsibility for many aspects of the Company's financial transactions as I assumed various jobs in the

Corporate Accounting area. In October of 1986 I was promoted to Director - Accounting Standards at Ameritech Services, Inc., where I became responsible for establishing the new FCC Uniform System of Accounts and creating the Ameritech Cost Allocation Manual along with the mechanized Part 64 Cost Allocation System (PCAS) in response to the FCC's Part 64 requirements. During this time I represented the Ameritech Operating Companies on many United States Telephone Association (USTA) task forces concerning FCC accounting issues. In April of 1991 I was appointed to the position of Director – Corporate Budgets at Ameritech Services, Inc. where I coordinated the consolidation of local departmental budget groups into a centralized organization. Effective in August, 1993, I was appointed to the position of Financial Management Systems Accounting Director responsible for the Ameritech Services corporate books and budgeting along with the corporate books closing process of the five Ameritech Operating Companies including the Benefit and Labor Rate Clearances, and the Affiliated Transaction methods and billing. I continued to serve in this capacity with increasing Ameritech Operating Company accounting responsibilities until my current appointment in April, 2000. During this time I was directly responsible for the closing of the regulatory books of account of Ameritech Illinois along with the other Ameritech Operating Companies. In this capacity I have directed and authored process changes and improvements impacting the financial systems and the Ameritech Financial Systems Warehouse (AFIW), Regional Corporate Accounting System (RCAS), Property and Cost Systems, and the Chart of Accounts.

Q. Are the books and records of the Company kept in accordance with the Uniform System of Accounts prescribed by the Federal Communications Commission (FCC) in Part 32 of its rules and regulations and codified by the Illinois Commerce Commission as 83 Illinois Administrative Code, Part 710?

R. Yes, they are.

II. Purpose

S. What is the purpose of your testimony?

A. The purpose of my testimony is two-fold. First, in compliance with Commission directive (see schedules for Ameritech Illinois Dockets applicable to Alternative Regulation, Illinois Commerce Commission, February 24, 2000), I am presenting Ameritech Illinois' actual operating results for the twelve months ended December 31, 1999. In keeping with conventional routines, these data have been adjusted for known and measurable changes and prior period items, which are discussed. Second, I am presenting Ameritech Illinois' financial results for the entire period in which the Company has operated under the alternative regulatory plan, 1995-1999.

III. Operating Results – Calendar Year 1999

Q. **Mr. Dominak, based upon the Commission's filing requirements using a rate of return methodology, have you developed an actual balance available for return on investment for the twelve-month period ended December 31, 1999?**

A. Yes, I have. Schedule 1 shows the development of the balance available for return for the twelve month period ending December 31,1999.

Q. **Please explain Schedule 1.**

A. Schedule 1 shows the total company balance available for return on investment for the twelve months ended December 31, 1999, drawn from appropriate Company data. The first column shows the groupings of Operating Revenues, Operating Expenses, Other Operating Taxes, selected Other Income and Expenses, and Federal and State Income Taxes, used in the calculation of Balance Available for Return. The groupings reflect Part 32 accounts. Column A shows the total journalized for each of these categories for the twelve months ended December 31, 1999.

Q. **Mr. Dominak, please explain the Prior Period Ledger Adjustments in Column B.**

A. Amounts reflected in this column represent items that were journalized in the historic period but are applicable to another accounting period. They are removed so that the balance available for 1999 reflects only items applicable to that period. Expenses removed or added consist of SBC/Ameritech merger planning and implementation costs billed from SBC, reciprocal compensation expenses related to prior periods and an adjustment for prior period asset disposition costs. Settlement gains resulting from the payment of lump-sum distributions from the pension plan due to abnormal force loss were also adjusted.

Taxes removed or added include true-ups for the federal return for 1998 as well as the tax impacts of the expense adjustments.

Q. **Please explain Column C, Nonregulated.**

A. Column C shows the actual nonregulated revenues, expenses and taxes applicable to the period ending December 31,1999. These amounts are determined in accordance with Part 64 of the Federal Communications Commission (FCC) rules and the Ameritech Cost Allocation Manual (ACAM), approved by the FCC and this Commission. Adjustments have been made to these data to reflect the impact of the prior period ledger adjustments in Column B as discussed above.

Q. **Please explain Column D, Total Company Subject to Separations.**

A. Column D shows Total Company Subject to Separations and is the basis for the separation of expenses between intrastate (Illinois) and interstate operations. It is Column A plus Column B minus Column C.

Q. **Please explain Column E, Intrastate Ratios.**

A. Column E shows the actual Intrastate Ratios. The separations process used to develop these ratios is performed in accordance with Part 36 of the FCC Rules and Regulations. The Part 36 Jurisdictional Separations Procedures, Rules and Regulations, which have been in effect since January 1, 1988, prescribe the assignment of property costs, revenues, expenses, taxes and reserves to the interstate jurisdiction and the development of interstate allocation factors. Ameritech Illinois' interstate results are reflected in the interstate monitoring reports (Automated Reporting Management Information System (ARMIS Reports)) which are filed with the FCC.

Based upon the Illinois specific interstate data the intrastate ratios are determined by the simple mathematical calculation of "1 minus the interstate ratio". These separations data, therefore reflect actual data for the full year of 1999.

Q. Please explain Column F, Intrastate Operating Results.

A. The revenue portion of Column F shows the journalized intrastate revenue. Local Service and Intrastate Access revenues match Total Company Subject to Separations. Long Distance Network Service revenues exclude interstate revenues such as long distance message revenue. Miscellaneous revenues exclude interstate items such as billing and collection. (The related expenses of billing and collection are subject to the Separations procedures.) Finally, Uncollectible Revenues exclude the interstate portion. In all cases, the intrastate revenue values, before adjustment for prior period items, are directly obtainable from the Company's books and records.

The Operating Expense section of Column F shows the application of the intrastate ratios; Column E described above, to the total company expenses and other taxes, subject to separations Column D. Intrastate depreciation expense is developed by applying Ameritech Illinois determined depreciation rates to average total company monthly depreciable plant balances, then applying the appropriate plant intrastate ratio calculated from the provided interstate separations results.

Federal and state income taxes are allocated to the intrastate jurisdiction in the same ratio as net intrastate taxable operating income is to the total Company net taxable income, as adjusted.

Q. Mr. Dominak, please explain the Columns G, through L, Intrastate Known Changes.

A. Columns G through L, shows significant known changes which have occurred during 1999, but are not completely reflected therein or will occur within twelve months after the filing of this case.

Q. Mr. Dominak, would you please explain the adjustment for increases in salaries, wages, and benefits shown under Column G.

A. Ameritech Illinois negotiated new wage and benefit contracts in 1998 with both of its unions. New contracts became effective June 28, 1998 with the International Brotherhood of Electrical Workers (IBEW) and August 9, 1998 for the Communications Workers of America (CWA). In addition, management employees received increases effective February 1, 1999. As a result, new increases are effective June 27, 1999 for the IBEW and August 8, 1999 for the CWA. I have calculated the impact of the negotiated annual wage and employee benefit increases for the Ameritech Illinois employees represented by these two unions, as well as the management salary increases and have reflected the amounts not included in the 1999 results in Column G. I have also included the related non-management changes to be effective in the year 2000, as well as management increases effective in 2000. Also included are the related Ameritech Services (ASI) increases that are charged to Ameritech Illinois.

ASI is a nonregulated subsidiary that is wholly owned by the five Ameritech Operating Companies (AOCs). The non-management employees of ASI are bargained-for employees and participate in the same International Brotherhood of Electrical Workers (IBEW) and Communications Workers of America (CWA) contracts as the Ameritech Illinois IBEW and CWA employees. Additionally, management employees received increases effective February 1, 1999 and March 1, 2000 at the same rate as the Ameritech Illinois management employees.

I have calculated the Ameritech Illinois impact of the negotiated annual wage and employee benefit increases for the ASI employees represented by the IBEW, as well as the management salary increases. The Illinois amount of the ASI increase was determined by using appropriate allocation factors.

Q. Please explain Column H, Directory Contract.

A. Column H represents the expiration of the contract with Ameritech Publishing Inc. (API) effective December 31, 1999. Under this contract Ameritech Illinois had received a sum certain payment of $ 75 million dollars annually. Beginning in year 2000, this payment will no longer be received. Rather, API will pay for listings and billing and collection services at the prevailing price valuation standard consistent with the FCC's Affiliate Transaction rules, C.F.R. 32.27 and the Illinois Commerce Commission as 83 Illinois Administrative Code, Part 711. Thus the sum certain payment was adjusted to reflect the impact of the listing and billing and collection service charges.

Q. **Please explain Column I, 1999 Price Cap.**

A. Column (I) represents the annualized impact of the 1999 annual rate filing under Ameritech Illinois' Alternative Regulation Plan.

Q. **Please explain Column J, Other 1999 and Column K, 2000 Changes.**

A. There were a number of requests to this Commission that were approved for changes in tariffs that were not fully reflected in the actual 1999 results. I have calculated the impact of these tariff changes for the annual amount not reflected in calendar year 1999 results and have shown the impact in Columns J and K.

Q. **Please explain Column L, 2000 Price Cap.**

A. Column L represents the annualized impact of the price change proposals submitted in the year 2000 annual rate filing under the Ameritech Illinois Alternative Regulation Plan. In my rebuttal testimony, I will adjust these amounts to reflect the Commission's decision ICC Docket No. 00-0260.

Q. Please explain Column M, Total Intrastate Balance Available for NOC (Net Original Cost).

A. Column M is a subtotal of intrastate balance available for return, and is the sum of Columns F to L.

Q. Mr. Dominak, have you prepared an exhibit depicting the actual net original cost of property as of December 31, 1999?

A. Yes, I have. Schedule 2 portrays the actual net original cost of property for Total Company, Non-Regulated Items, Total Company Subject to Separations, Intrastate Ratios, and Adjusted Total Intrastate Amount as of December 31, 1999.

Q. Please describe the Net Original Cost (NOC) of Property.

A. Column A on Schedule 2, represents the actual original cost of plant as of December 31,1999, as well as actual costs for Material & Supplies, Customer Deposits and the reserves for Depreciation, Amortization and Deferred Taxes. Also included are pre-1971 unamortized investment tax credits. The Net Original Cost of Property is derived from the original cost of Plant less the associated reserves. Plant Held For Future Use is includable in NOC but contains a zero balance at December 31, 1999.

Q. Have you included cash working capital in the net original cost presentation?

A. There has been no adjustment for cash working capital.

Q. Please describe the Nonregulated amounts shown in Column B.

A. Column B shows the amount of investment and reserves apportioned or directly assigned to nonregulated operations in accordance with the Ameritech Cost Allocation Manual. Column C, Total Company Subject to Separations, is the result of subtracting the nonregulated amounts in Column B from Column A.

Q. Mr. Dominak, would you please explain how you arrived at the actual Total Intrastate Operating results net original cost of $2,822,925,000 as shown under Column E of Schedule 2.

A. Yes. As previously discussed, Column C is the Total Company Subject to Separations. Column D shows the intrastate separations ratios for the twelve months ended December 1999, described earlier in this testimony. Column E is the actual intrastate net original cost developed by applying the intrastate separations ratios to investment and reserve category balances. The Intrastate Operating Results (Column E) is the product of this calculation.

Q. Mr. Dominak, did you compute an overall return on net original cost of property?

A. Yes I did, I used the Total Net Original Cost of property on Schedule 2 and the intrastate balance available for return adjusted for significant known changes from Schedule 1, Column M. The overall rate of return on net original cost of property using the intrastate balance available for return adjusted for significant known changes and the intrastate net original cost of property, is 16.77%.

IV. Operating results – Calendar Years 1995 Through 1999

Q. **What information is contained on Schedule 3?**

A. My Schedule 3 shows the Company's operating results for each of the five calendar years that it has been operating under an alternative regulatory plan. In the last column, on that schedule, I show averages for the first five years of the plan's operation. The data shown has not been adjusted for significant changes, as my intent is to present the adjusted operating results as they occurred.

VI. Conclusion

Q. Does this conclude your testimony?

A. Yes, it does.